

VZCZCXRO3737

OO RUEHBC RUEHBI RUEHCI RUEHDE RUEHKUK RUEHLH RUEHPW RUEHROV
DE RUEHNE #3127/01 3461346
ZNY CCCCC ZZH
O 111346Z DEC 08
FM AMEMBASSY NEW DELHI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 4654
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNISL/ISLAMIC COLLECTIVE
RUCNNSG/NUCLEAR SUPPLIERS GROUP COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 7236
RUEHLO/AMEMBASSY LONDON 5666
RUEHMO/AMEMBASSY MOSCOW 2958
RUEHUL/AMEMBASSY SEOUL 1453
RUEHKO/AMEMBASSY TOKYO 5969
RUEHSI/AMEMBASSY TBILISI 0046
RUEKJCS/SECDEF WASHDC
RUEAIIA/CIA WASHDC
RHEHNSC/NSC WASHDC
RUEIDN/DNI WASHINGTON DC
RHHMUNA/HQ USPACOM HONOLULU HI
RUCNDT/USMISSION USUN NEW YORK 7340
RUEHGV/USMISSION GENEVA 8019
RUEKJCS/JOINT STAFF WASHDC

C O N F I D E N T I A L SECTION 01 OF 06 NEW DELHI 003127

SIPDIS

DEPARTMENT FOR SCA/INS

E.O. 12958: DECL: 12/11/2018

TAGS: [PGOV](#) [PREL](#) [KMDR](#) [KPAO](#) [ECON](#) [PARM](#) [TSPL](#) [KNNP](#) [ETTC](#)

ENRG, TRGY, PTER, PK, IN

SUBJECT: INDIA SCENESETTER FOR SENATOR KERRY

Classified By: Ambassador Mulford for Reasons 1.4 (B, D)

11. (C) Senator Kerry, as you know your visit comes at a time of new tensions between India and Pakistan after the Mumbai attacks. The U.S. has encouraged the GOI to pursue a measured action. Both Secretary Rice and Deputy Secretary Negroponte have traveled to the region to meet with leaders in Pakistan and India to counsel meaningful actions but public restraint. The Indian media is portraying you as an emissary of President-elect Obama. They take your visit as a positive sign that the incoming Obama Administration will continue to regard India as a strategic priority with a bilateral relationship moving forward on all fronts.

Indo-Pak Relations

12. (C) India is grappling with its worst crisis of security and political confidence in recent memory. The Mumbai terrorist attacks deeply demoralized and angered the Indian public. Indians have directed their fury at the political establishment, which they feel failed to protect them and responded in a haphazard way to the crisis. The public's anger has put the Congress Party-led government of Prime Minister Manmohan Singh under growing political pressure to demand the GOP take real action against Lashkar-e-Tayyba (LeT) and other terrorist groups. The GOI now sees Pakistan's terrorist infrastructure as a clear and present danger. Unless the GOP seriously begins to dismantle it, the pressure on GOI will build to a point where India will feel compelled to act unilaterally.

13. (C) Pakistan's recent raids, detentions and house arrests are viewed by a skeptical Indian government as wholly inadequate. The Indians believe Pakistan is replaying its 2001 maneuver after the attack on the Indian parliament, when the usual suspects were rounded up and then released three months later. The GOI understands that rendition of the "20 Most Wanted" is probably unrealistic at this point but it needs to see some concrete Pakistani action against the LeT, its leaders and its camps. The GOI also understands that the civilian government of Pakistan wants to be forward leaning

but is limited in what it can deliver. Nevertheless, the expectation is that Pakistan must demonstrate good faith if the two sides are to step away from the brink. This would require that Pakistan respond in a productive fashion to the India and not just be seen as reacting to U.S. demands. In this light, Pakistan's December 9 comments in the Security Council invoking Kashmir are seen as a diversion that only fuels the GOI's belief that Pakistan's efforts are not credible. In India, nothing would inspire more confidence about the Pakistani government's sincerity and good faith than the extradition of even a few of the terrorists on India's wanted list.

¶4. (C) While the GOI may at some level accept the Pakistani civilian leadership's professions of good faith, they hold few illusions about the Pakistani military. The GOI is skeptical that the military leadership is willing to respond to the call for action against the LeT and the 20 terrorist on the list. Indian officials are dismissive of Pakistan's offers of a joint investigation, which they see as a stalling tactic. While the GOI has not ruled out receiving a GOP delegation led by Foreign Minister Quereshi or National Security Advisor Durrani, they believe that unless ISI Chief Ahmad Pasha leads the delegation, it would accomplish little. Adding to the pressure, India is entering a political season with national elections due by April 2009. While the Secretary's December 3 visit and state elections succeeded in creating some breathing room for GOI, it won't be able to bear the pressure indefinitely.

NEW DELHI 00003127 002 OF 006

¶5. (C) In this environment, your visit presents a unique opportunity to build on the Secretary's visit, which demonstrated as nothing else could to GOI and the Indian people that the U.S. stands with them in this time of crisis and considers India a strategic priority. Too often in the past India has felt alone as other countries have dismissed terrorism against it as "Kashmir violence" and, therefore, somehow acceptable. The Secretary's visit also strengthened the hand of those in the government who are arguing for restraint because they recognize that precipitous actions can have unintended consequences. The Indian public holds high expectations about what the U.S. can deliver following the Secretary's visit. But with these high expectations come the incumbent risks to the bilateral relationship if the U.S. is perceived as not having delivered.

¶6. (C) You should be aware that candidate Obama's comments about appointing a special envoy for Kashmir were met with a firestorm of criticism in Delhi. India considers Kashmir strictly a bilateral issue with Pakistan and has consistently rejected calls for international mediation. Your GOI interlocutors will likely press you on the President-elect's intentions towards this issue.

Increased Law Enforcement Cooperation

¶7. (C) The most constructive approach to take at this time is to offer assistance and to encourage the GOI to focus on improving security preparedness and prevention of terrorist attacks. This is what the public wants and believes has not been a priority for the political class generally. Pakistan's terrorist infrastructure is perceived as a permanent threat. India must address internal security on a comprehensive basis and we can help. We have already seen unprecedented law enforcement cooperation between India and the U.S., primarily with the FBI. Historically, the GOI had been a reluctant law enforcement partner. But after Mumbai, it dropped its resistance and there are currently FBI teams in Mumbai providing investigatory assistance. Significantly, the high level of cooperation has included FBI access to the sole living terrorist. The Indians have also become far more amenable to accepting our many offers of counterterrorism assistance. The Mumbai attacks appear to have finally made

the GOI realize that no country can combat terrorism alone and that countries need to cooperate with one another in the international war on terrorism.

Domestic Political Fallout

18. (C) While the country's mood has been dark, there have been some bright spots. Even as the sixty-hour siege unfolded live on television, the country's democratic institutions continued working uninterrupted. State assembly elections were held in three states during the attack and election results for a total of five state assembly elections were announced on December 8. State elections in a sixth state - Jammu and Kashmir - are ongoing. Polling has been free of violence and has seen high turnouts, a clear sign that voters have rejected separatists' boycott demands. In the five states that were decided, the Congress Party exceeded expectations and won three of five, contrary to conventional wisdom which held that the ruling party in Delhi would pay at the polls. The Congress Party's performance has strengthened the argument of those who believe the Mumbai-related wrath of the Indian public is directed at the entire political establishment and does not yet distinguish between different parties. The election results also demonstrate that in India, especially in state and local elections, local issues matter most and national issues such as terrorism have difficulty finding traction.

NEW DELHI 00003127 003 OF 006

19. (C) The Congress Party-led GOI also welcomed the recent state elections results because they pushed the Mumbai terrorist attacks off the front pages. The GOI will now brace for a fierce onslaught by opposition parties in Parliament, which reconvened on December 10 after a six-week recess. Assuming the GOI survives this session, it faces national elections in April-May 2009. The mixed results of the state elections make it difficult to discern any broad national electoral trends. The next national election, therefore, will not be one election but 34 different elections, with each of India's states having its own unique basket of issues and its own assortment of political regional parties and players.

Civil Nuclear Cooperation

110. (SBU) As you know, the U.S.-India Civil Nuclear Cooperation Agreement was approved by a large bipartisan majority in the House and Senate in September, signed by Secretary Rice and External Affairs Minister Mukherjee in Washington October 10, and brought into force by an exchange of diplomatic notes on December 6. The Agreement has been the centerpiece of efforts to strengthen our bilateral relations since the July 2005 Joint Statement by the President and Prime Minister Singh. India viewed the signing of the 123 Agreement as an historic event and shares our vision of the Agreement as an essential part of transforming our relationship. The Mumbai terror attacks have displaced the Civil Nuclear Agreement from the headlines, but the goodwill it generated provides a firmer foundation for improved counter-terrorism cooperation and a more credible good offices role vis a vis Pakistan in the eyes of the Indians.

111. (SBU) The Civil Nuclear Agreement has been a lightning rod for opponents of Prime Minister Singh's government, but the critics have not been rewarded at the polls in recent state elections. Concerns about the reliability of U.S. fuel supply assurances and limits on technology transfers could complicate or delay commercial prospects for U.S. firms in the civil nuclear sector, dominated by the Department of Atomic Energy (DAE) and the state monopoly Nuclear Power Corporation of India Limited (NPCIL). The Indian Government signed bilateral agreements for civil nuclear cooperation

with France on September 30 and with Russia on December 5. India cannot act on any of these agreements until it signs its IAEA Safeguards Agreement, which may take place before the end of the year. U.S. and other private firms also require nuclear liability protection to do business in India in the form of the Convention on Supplementary Compensation for Nuclear Damage (CSC), which awaits Cabinet approval prior to passage by the Parliament.

Regional Issues

¶12. (C) Under Prime Minister Singh's leadership, GOI is emerging as a responsible leader in the region, as well as in Asia at large. India encourages democracy in the region, but is worried by continuing political instability in both Nepal and Bangladesh and by the surge in violence in Sri Lanka. We have followed closely as India and China have sought warmer relations by engaging in a strategic dialogue that separates the contentious border issues from a broader engagement. Their bilateral trade has been growing at about 40 percent annually, but India's large trade deficit with China has led to worries among Indian businesses. India has been a significant contributor to Afghanistan's reconstruction (their \$1.2 billion in pledges places them fifth among donors) and numerous Indian officials have expressed their

NEW DELHI 00003127 004 OF 006

deep desire for the United States to remain engaged in Afghanistan until democracy has taken a solid foothold. We still diverge with India over tactics towards Iran and Burma, although we ostensibly share the same goals. President Medvedev, on December 5, was the latest in a constant stream of world leaders to visit Delhi, reaffirming solid Indo-Russian ties and affirming solidarity in the wake of the Mumbai terror attacks.

Economic Ties

¶13. (SBU) The U.S.-India economic relationship, for decades narrow and circumspect, is gathering steam and is becoming a key driver of our overall bilateral relationship. The United States is India's largest trading partner and its largest foreign investor. Two-way merchandise trade grew to a record 42 billion dollars last year, with U.S. exports surging 75 percent. We are well on our way to meeting our publicly stated goal of doubling bilateral trade by the end of 2008. At the same time, investment has surged between our countries in recent years, prompting agreement to launch negotiations in January on a bilateral investment treaty. India was proud to participate in the G-20 Financial Summit last month and publicly supports its goals. However, the government has reinstated some protectionist tariffs, undermining G-20 consensus to keep international trade flowing during these challenging economic times.

¶14. (SBU) The Indian economy continues to be the second fastest growing economy after China, even as the global slowdown and financial crunch moderate GDP growth from 9% last year to an anticipated 7% this year. Most of India's growth is domestically generated and the government's current pre-election expansionary budget provides a fiscal stimulus that should help sustain consumer demand. India's globalizing companies and banks are feeling the pinch of tougher foreign financing conditions, but this has not prompted the private sector or the government to denounce India's integration with the international financial system. Rather, India's central bank and SEC-equivalent have liberalized foreign capital inflows and investment procedures while the GOI is considering easing foreign direct investment (FDI) constraints. The government has also been quick to offer concessions to the labor-intensive textile and jewelry export sectors, hit by slowing global demand.

¶15. (SBU) In the medium term, India will find it hard to

increase or even sustain its high growth rates unless it undertakes a second generation of critical but politically difficult reforms. While the government is led by economists who understand what needs to be done, the economic reform program was stalled for a long time as the UPA confronted strong opposition from the Left, BJP and within the Congress party itself. Since the Left withdrew its support in July, the government has implemented some non-legislative reforms, but Parliamentary action appears unlikely until after national elections are held this spring and a new government is instituted. Regardless of who wins, we expect the new government to continue economic liberalization. As it is, lagging growth in agriculture and a weak - but improving - infrastructure constrain growth. Economic liberalization has been slow to come to the agricultural sector, which supports more than half of the country's population and yet accounts for only 18 percent of GDP. The top Indian economic priorities are infrastructure development and spreading economic benefits into rural India.

Bilateral Issues -- Opportunities to Build Partnerships

¶16. (C) We wanted to highlight two topics in the bilateral

NEW DELHI 00003127 005 OF 006

relationship that merit special focus -- defense and agriculture. On defense cooperation, the U.S. and India have conducted a series of joint and service-to-service exercises of increasing scope and capability since sanctions were lifted in 2001. Last year saw the first-ever visit by a nuclear aircraft carrier to India and India's largest multilateral naval exercise in modern history, MALABAR 07-02.

Planning is ongoing for the bilateral MALABAR 08 this October. Over the summer, U.S. Army Special Forces exercised at the Indian Counter-Insurgency Jungle Warfare School in the northeastern state of Mizoram while eight Indian Air Force SU-30s were taking part in the Red Flag air combat exercises at Nellis Air Force Base in Nevada. The Indian government has also indicated far more interest in acquiring defense items and building an arms relationship with the U.S. Defense sales, dormant for over 40 years while India was essentially a Soviet client, have just started to take off, with a billion dollar deal for six C-130s completed in January as the latest breakthrough. We're hoping to finalize a separate billion dollar deal for P-8 maritime patrol aircraft, and both Boeing and Lockheed Martin are competitors for the estimated 10 billion dollar combat aircraft bid to be decided in 2009. At the same, the Russians and Indians defense relationship has been buffeted by complaints over deliveries and spare parts -- Russian Defense Minister Serdyukov left New Delhi September 29 without reaching a deal on the Admiral Gorshkov aircraft carrier project, which has been plagued by substantial cost overruns and years of delay. While there is a real opportunity for the U.S. here, India's slow-rolling on three key defense agreements -- end use monitoring for military systems with sensitive U.S. technologies, a logistics support agreement to facilitate joint military exercises, and a communications agreement to foster interoperability -- is an obstacle to realizing the promise of full strategic partnership.

¶17. (SBU) On agriculture, with the Agricultural Knowledge Initiative (AKI) ending this year following its 2005 launch by President Bush and PM Singh, the Indians have told us they are eager to continue bilateral cooperation in this sector that employs more than two-fifths of all Indians workers, most at a subsistence level. The Indians have responded positively to our concept of a four pillar approach --productivity, market efficiency, environmental sustainability, and finance/insurance -- that would procedurally look similar to our successful Energy Dialogue with India. However, we will not be able to table our proposal to India until we can back it up with significant USG funding.

¶18. (SBU) Despite India's stunning economic growth during the past fifteen years, roughly 300 million Indians live on less than a dollar a day; 700 million Indians live on less than two dollars a day. An unhealthy population constrains economic growth in parts of India; some states in northern India possess health indicators on-par with the poorest countries of sub-Saharan Africa. According to most recent estimates, India with 2.5 million HIV/AIDS cases is the third highest HIV/AIDS infected population worldwide, after South Africa and Nigeria. One quarter of the world's deaths of children and women in childbirth occur in India. Forty-six percent of children under three years of age are malnourished. Poor health conditions take an economic toll in various ways, including continued expenditures on combating diseases that should have been eliminated and decreased labor productivity and human capacity. India's education system is not providing the numbers of people with the necessary skills for the modern economy because of poor quality primary education and limited vocational training.

NEW DELHI 00003127 006 OF 006

The impact of poor basic education and work force development is that sixty percent of children drop out before grade 10 and 10 million children are out of school. Finally, while India's energy consumption has more than doubled over the last quarter century, half of the country's population still lacks easy affordable access to electricity. India realizes the threats these challenges pose to its continued economic progress. Indian public and private sector partners look to U.S. expertise and knowledge, including through the U.S. assistance program, to direct resources with appropriate policies, strengthened institutions and state-of-the-art technologies and expertise.

MULFORD